

## Farm Credit Administration

## § 652.40

events. Such stress events include, but are not limited to market disruptions, rapid increase in contractually required loan purchases, unexpected requirements to fund commitments or revolving lines of credit or to fulfill guarantee obligations, difficulties in renewing or replacing funding with desired terms and structures, requirements to pledge collateral with counterparties, and reduced market access.

(2) *CFP requirements.* Farmer Mac must maintain an adequate level of unencumbered and marketable assets (as defined in § 652.40(a) and (b) of this subpart) in its liquidity reserve that can be converted into cash to meet its net liquidity needs for 30 days based on estimated cash inflows and outflows under an acute stress scenario. The board of directors must review and approve the CFP at least once each year and must make adjustments to reflect changes in the results of stress tests, Farmer Mac's risk profile, and market conditions.

(3) The CFP must:

(i) Be customized to the financial condition and liquidity risk profile of Farmer Mac, the board's liquidity risk tolerance, and Farmer Mac's business model;

(ii) Identify funding alternatives that can be implemented as access to funding is impeded;

(iii) Establish a process for managing events that imperil Farmer Mac's liquidity. The process must assign appropriate personnel and executable action plans to implement the CFP;

(iv) Require periodic stress testing that analyzes the possible impacts on Farmer Mac's cash flows, liquidity position, profitability, and solvency for a wide variety of stress scenarios.

### § 652.40 Liquidity reserve requirement and supplemental liquidity.

(a) *Unencumbered.* All investments that Farmer Mac holds in its liquidity reserve and as supplemental liquidity in accordance with this section must be unencumbered. For the purposes of this section, an investment is unencumbered if it is free of lien, and it is not explicitly or implicitly pledged to secure, collateralize, or enhance the credit of any transaction.

Additionally, an unencumbered investment held in the liquidity reserve cannot be used as a hedge against interest rate risk if liquidation of that particular investment would expose Farmer Mac to a material risk of loss.

(b) *Marketable.* All investments that Farmer Mac holds in its liquidity reserve in accordance with this section must be readily marketable. For purposes of this section, an investment is readily marketable if it:

(1) Can be easily and quickly converted into cash with little or no loss in value;

(2) Exhibits low credit and market risk;

(3) Has ease and certainty of valuation; and,

(4) Except for money market instruments, can be easily sold or converted to cash through repurchase agreements in active and sizable markets without significantly affecting prices.

(c) *Liquidity reserve requirement, supplemental liquidity, and discounts.* Farmer Mac must maintain at all times a liquidity reserve sufficient to fund at least 90 days of the principal portion of maturing obligations and other borrowings. Farmer Mac must also hold supplemental liquid assets sufficient to fund obligations and other borrowings maturing after 90 calendar days to meet board liquidity policy in accordance with § 652.35. At a minimum, Farmer Mac must hold instruments in the liquidity reserve, and as supplemental liquidity, that are listed and discounted in accordance with the following table, and are sufficient to cover:

(1) Days 1 through 15 only with Level 1 instruments;

(2) Days 16 through 30 only with Level 1 and Level 2 instruments; and,

(3) Days 31 through 90 with Level 1, Level 2, and Level 3 instruments.

TABLE TO § 652.40(c)

Liquidity level	Instruments	Discount (multiply market value by)
Level 1 .....	<ul style="list-style-type: none"> <li>Cash, including cash due from traded but not yet settled debt.</li> <li>Overnight money market instruments, including repurchase agreements secured exclusively by Level 1 investments.</li> <li>Obligations of the United States with a final remaining maturity of 3 years or less.</li> </ul>	<p>100 percent.</p> <p>100 percent.</p> <p>97 percent.</p>

TABLE TO § 652.40(c)—Continued

Liquidity level	Instruments	Discount (multiply market value by)
Level 2 .....	<ul style="list-style-type: none"> <li>Government-sponsored agency senior debt securities that mature within 60 days, excluding securities issued by the Farm Credit System.</li> </ul>	95 percent.
	<ul style="list-style-type: none"> <li>Diversified investment funds comprised of cash, overnight money market funds, obligations of the United States, and Government-sponsored agency senior debt securities <i>provided that</i> such diversified investment funds meet the requirements of 17 CFR 270.2a–7(c)(2).</li> </ul>	95 percent.
	<ul style="list-style-type: none"> <li>Additional Level 1 investments .....</li> </ul>	Discount for each Level 1 investment applies.
Level 3 .....	<ul style="list-style-type: none"> <li>Obligations of the United States with a final remaining maturity of more than 3 years.</li> </ul>	97 percent.
	<ul style="list-style-type: none"> <li>Mortgage-backed securities that are explicitly backed by the full faith and credit of the United States as to the timely payment of principal and interest.</li> </ul>	95 percent.
	<ul style="list-style-type: none"> <li>Diversified investment funds that qualify for Level 1 or are comprised exclusively of Level 2 instruments.</li> </ul>	95 percent.
Supplemental Liquidity ....	<ul style="list-style-type: none"> <li>Additional Level 1 or Level 2 investments .....</li> </ul>	Discount for each Level 1 or Level 2 investment applies.
	<ul style="list-style-type: none"> <li>Government-sponsored agency senior debt securities with maturities exceeding 60 days, excluding senior debt securities of the Farm Credit System.</li> </ul>	93 percent for all instruments in Level 3.
	<ul style="list-style-type: none"> <li>Government-sponsored agency mortgage-backed securities that the timely repayment of principal and interest are not explicitly backed by the full faith and credit of the United States, excluding Farmer Mac mortgage-backed securities.</li> </ul>	
	<ul style="list-style-type: none"> <li>Money market instruments maturing within 90 days.</li> </ul>	
	<ul style="list-style-type: none"> <li>Diversified investment funds comprised exclusively of levels 1, 2, and 3 instruments.</li> </ul>	
	<ul style="list-style-type: none"> <li>Qualifying securities backed by Farmer Mac program assets (loans) guaranteed by the United States Department of Agriculture (excluding the portion that would be necessary to satisfy obligations to creditors and equity holders in Farmer Mac II LLC).</li> </ul>	
	<ul style="list-style-type: none"> <li>Eligible investments under § 652.20 .....</li> </ul>	90 percent except discounts for Level 1, 2 or 3 investments apply to such investments held as supplemental liquidity.

EFFECTIVE DATE NOTE: At 78 FR 65553, Nov. 1, 2013, § 652.40 was added, effective 180 days after date of publication in the FEDERAL REGISTER, provided either or both Houses of Congress are in session for at least 30 calendar days after publication of this regulation.

**§ 652.45 Temporary regulatory waivers or modifications for extraordinary situations.**

Whenever the FCA determines that an extraordinary situation exists that necessitates a temporary regulatory waiver or modification, the FCA may, in its sole discretion:

(a) Modify or waive the minimum liquidity reserve requirement in § 652.40 of this subpart;

(b) Modify the amount, qualities, and types of eligible investments that you are authorized to hold pursuant to § 652.20 of this subpart; and/or

(c) Take other actions as deemed appropriate.

**Subpart B—Risk-Based Capital Requirements**

SOURCE: 71 FR 77253, Dec. 26, 2006, unless otherwise noted.

**§ 652.50 Definitions.**

For purposes of this subpart, the following definitions will apply:

*AgVantage Plus* means both the product by that name used by Farmer Mac and other similarly structured program volume that Farmer Mac might finance in the future under other names. Those AgVantage securities with initial principal amounts under \$25 million and whose issuers were part of the original AgVantage program are excluded from this definition.